



IGES Submission to the Standing Committee on Finance: Climate Finance Trends in Asia

Information for the first biennial assessment and overview of climate finance flows

The Institute for Global Environmental Strategies (IGES), 31 January 2014

This background paper responds to the Standing Committee on Finance's (SCF) call for information for its first biennial assessment and overview of climate finance flows. In particular, this paper aims to make contributions to the following items stipulated in SCF's report to COP19 (FCCC/CP/2013/8 Annex VII):

1. Information on geographical and thematic aspects
2. Tracking trends since 2007/2008 (UNFCCC investment and financial flows to address climate: 2007 update, and 2010-2012 FSF period)

This background paper focuses on East and South Asian countries, but does not include Pacific islands (Appendix). Country categorisation follows the World Bank's classification¹. The paper looks at two distinctive periods—the pre-fast start finance (pre-FSF) period (2006-2010) and the fast-start finance (FSF) period (2010-2012)—to track the different climate finance trends in Asia. Although the SCF's guidelines explicitly state a requirement to track trends since 2007, this paper also includes 2006 because GEF4 covered the period of 2006 to 2010. Furthermore, we realise that the GEF4 period overlapped with the FSF period and we have avoided double counting by calculating GEF4 investments in 2010 as part of the pre-FSF period and the remaining investments in 2010 as part of the FSF period. The paper further identifies the countries as either least developed countries (LDCs) or other developing countries, to describe diverse climate finance features. The former group includes eight countries and the latter group has ten countries.

The paper has a narrow focus on dedicated public climate finance (UNFCCC climate funds, multilateral initiatives outside the UNFCCC, and bilateral official development assistance) and excludes other official flows (OOFs). It relies on two data sources. First, it uses the database compiled by the Institute for Global Environmental Strategies (IGES) et al. (2013)² for the calculation of bilateral support during the FSF period. It should be noted that only ODA projects in that database have been counted. Second, it complements the

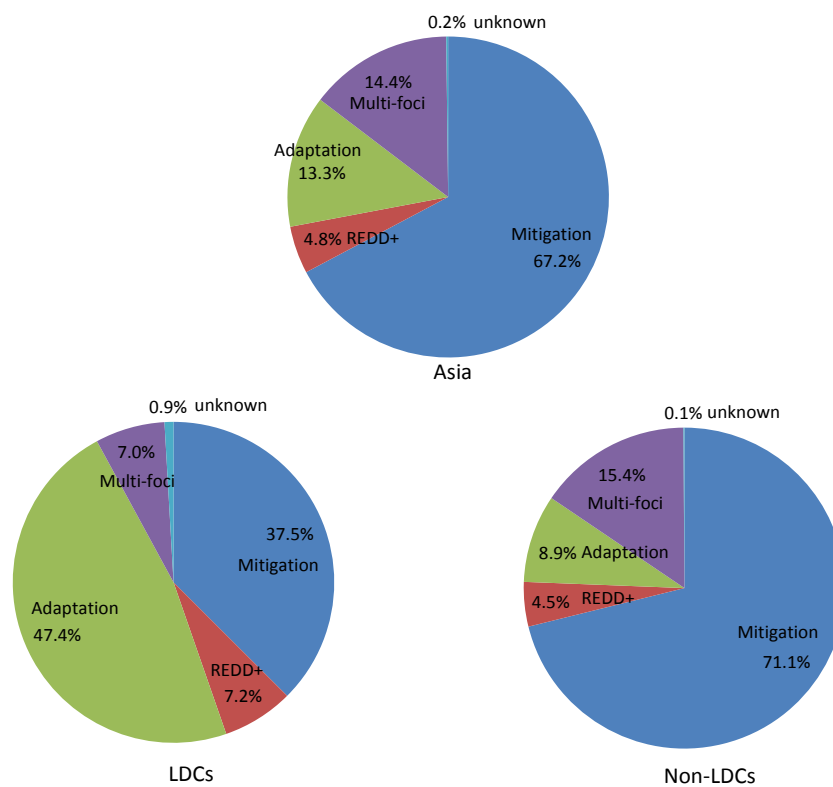
¹ World Bank country categorisation: <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>

² The spreadsheet can be downloaded from <http://pub.iges.or.jp/modules/envirolib/view.php?docid=4801>

aforementioned database with data from the Climate Funds Update (CFU) to calculate international support during the pre-FSF period as well as multilateral support during the FSF period. The data spreadsheet used in this analysis is attached as a separate file. Unless otherwise noted, figures in this paper are presented in current values and represent approved amount of climate finance.

1. Overview of climate finance in Asia (2006-2012)

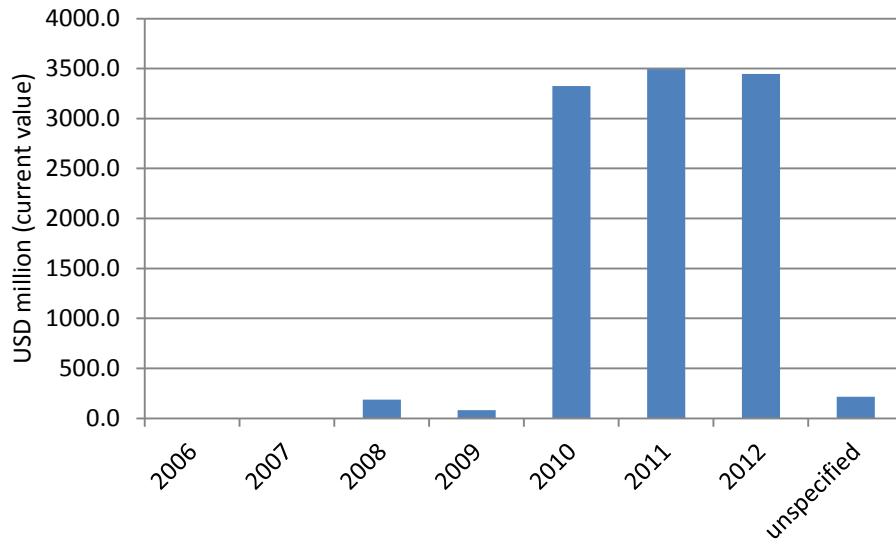
Between 2006 and 2012, Asia received a total of USD10,754.4 million in climate finance and had 1,216 projects approved for implementation. Mitigation represented the lion’s share of Asian climate finance and accounted for 67% of the total (USD7,230.4 million). Multiple foci projects, adaptation, and REDD+ accounted for 14%, 13%, and 5% of the total, respectively (Fig. 1). The LDCs and non-LDCs focused on themes differently. The LDCs had a relatively balanced focus on both adaptation and mitigation. In contrast, the non-LDCs had a strong focus on mitigation and a minor focus on adaption (Fig. 1).



Sources: CFU (2014); IGES et al. (2013)

Fig.1 Climate finance according to themes (2006-2012)

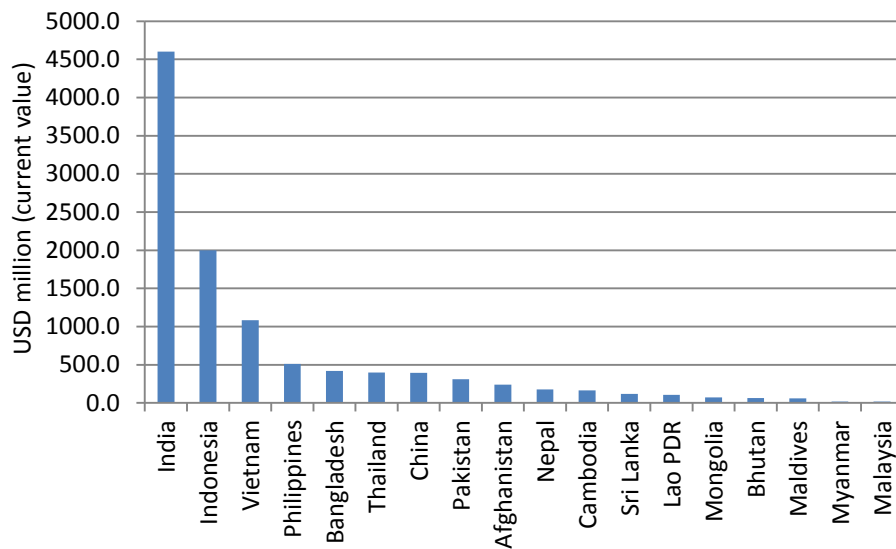
Climate finance has been flowing into Asia since 2008. Annual climate finance amounted to USD200-300 million before the FSF period. However, the FSF period saw a surge of investments, resulting in a ten-fold increase in climate finance to approximately USD3,500 million annually (Fig. 2). The yearly distribution of funding did not show significant variances during the FSF period.



Sources: CFU (2014); IGES et al. (2013)

Fig. 2 Yearly distribution of climate finance (2006-2012)

Nevertheless, climate finance was not evenly distributed among the recipient countries (Fig. 3). India alone accounted for more than 40% of the total, followed by Indonesia and Vietnam. The bottom five countries only accounted for 2% of the total. Bangladesh received the largest amount among the LDCs. In particular, the eight LDCs collectively received USD1,248.9 million, representing 12% of the total; while the ten non-LDCs received USD9,505.5 million, accounting for 88% of the total.

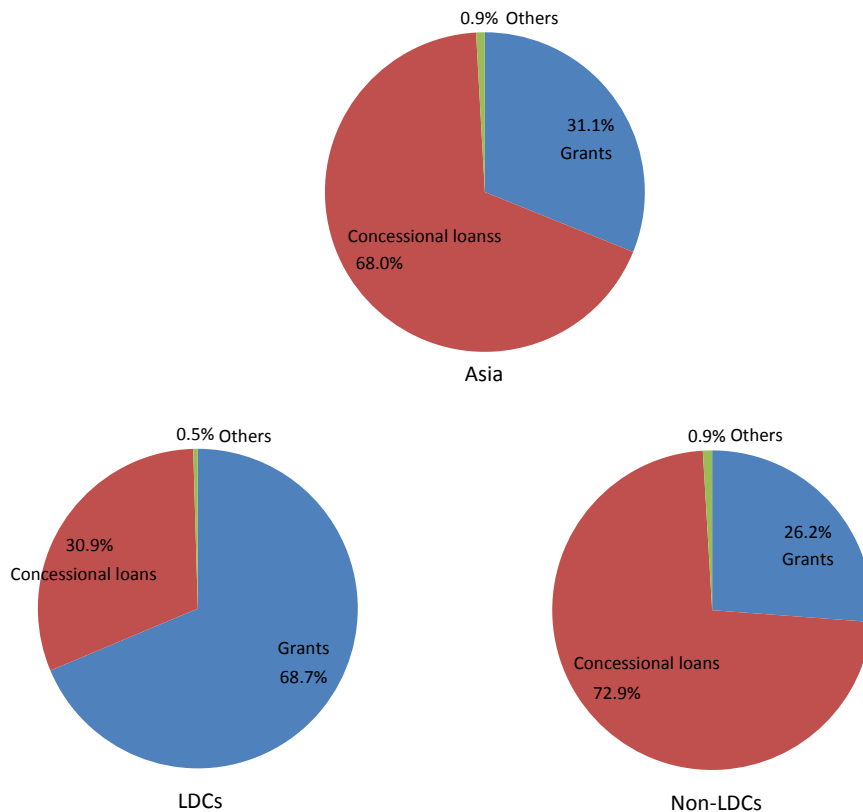


Sources: CFU (2014); IGES et al. (2013)

Fig.3 Distribution among the recipient countries (2006-2012)

Asia received 68% of funding in the form of concessional loans (Fig. 4). Grants accounted for 31% of the total and other instruments, including multiple instruments, debt reliefs, and unspecified instruments, accounted for the remaining 1% of the total. It is noteworthy that Asia did not receive any funding in the form of commercial loans. However, the LDCs and non-LDCs relied on different financial instruments. The LDCs received almost 70% of their

funding in the form of grants. In contrast, the non-LDCs received more than 70% of their funding in the forms of concessional loans.

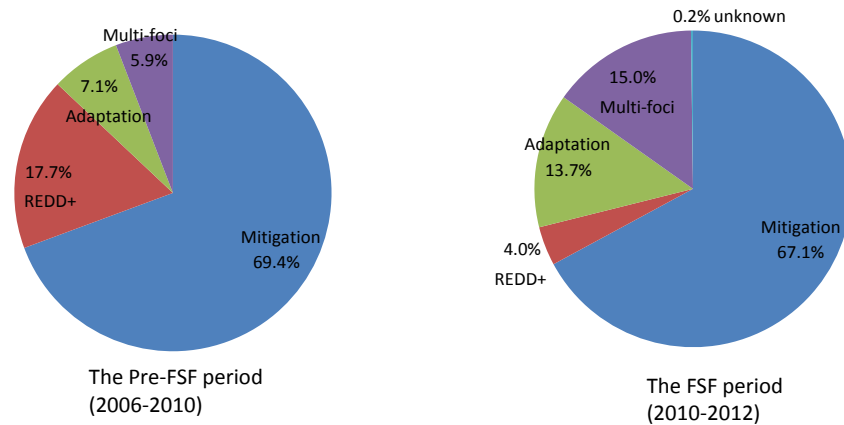


Sources: CFU (2014); IGES et al. (2013)

Fig. 4 Financial instruments

2. Comparisons of trends before and during the FSF period

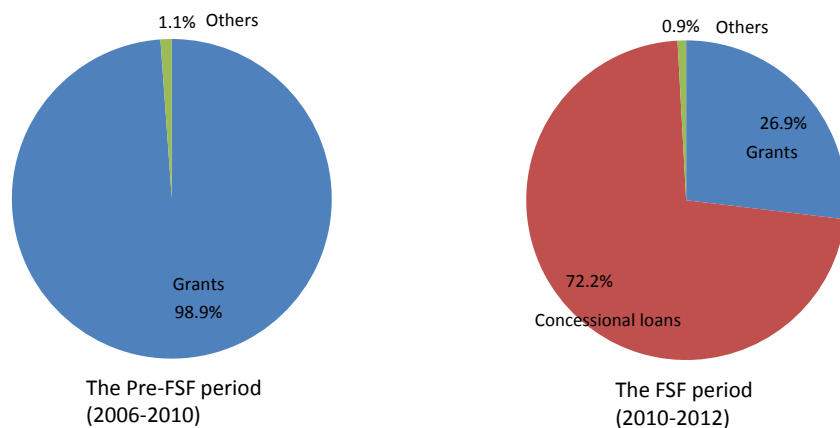
Asia received the modest amount of USD628.9 million during the pre-FSF period, which only represented 6% of the amount received during the FSF period (USD10,125.5 million). Mitigation represented the largest share of funding during both periods and accounted for almost 70% of the money received in the respective periods (Fig. 5). Adaptation and multi-foci projects had a larger share during the FSF period than before. In contrast, the share of REDD+ dropped from 18% during the pre-FSF period to 4% during the FSF period. Although the drop in the share of funding did not imply that REDD+ funding decreased in absolute terms, it shows that the increase in REDD+ funding was not as significant as the increase in funding for other thematic activities.



Sources: CFU (2014); IGES et al. (2013)

Fig. 5 Comparison of themes before and during the FSF period

The composition of financial instruments changed dramatically before and during the FSF period (Fig. 6). Asia received 99% of funding in the form of grants before the FSF period. In contrast, Asia only received 27% of funding in the form of grants during the FSF period. Nevertheless, concessional loans were the most used financial instruments during the FSF period and accounted for 72% of FSF funding. A closer look at FSF funding shows that the majority of concessional loans were from Japan to India, Indonesia, and Vietnam. Japan had 17 projects in these three countries that are multiple hundred million USD in size and would spread out money over a period of several years.

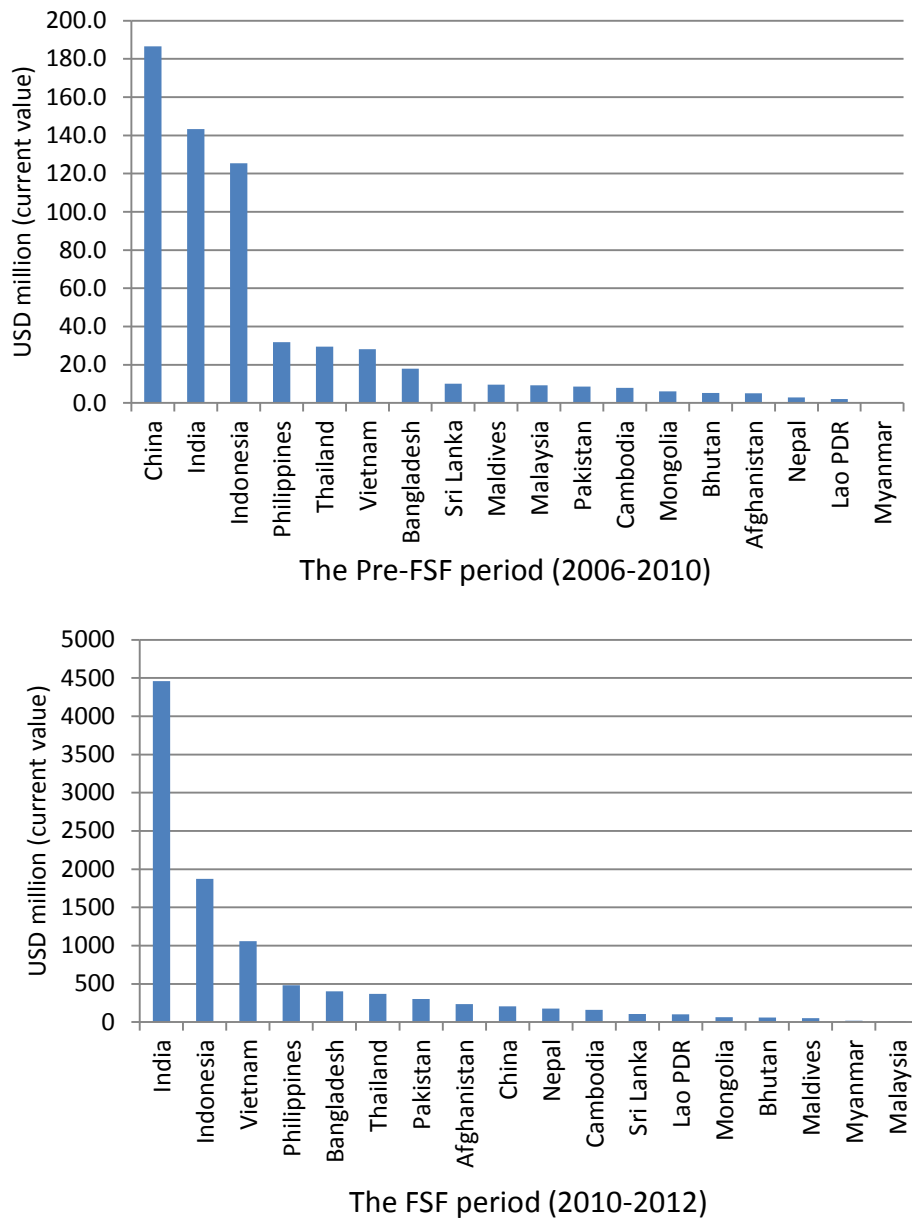


Sources: CFU (2014); IGES et al. (2013)

Fig. 6 Comparison of financial instruments before and during the FSF period

The order of recipient countries also changed (Fig. 7). China was the most attractive destination before the FSF period. However, it did not receive much bilateral funding during the FSF period and only ranked ninth in the attractiveness rating. The underlying reason may be the fact that donor countries resist financing fast-growing countries that are seen as economic competitors (Nakhoda et al., 2013). There is also the perception that China is able to finance climate change by itself. Afghanistan also had an obvious shift in ranking. It ranked fourth from the bottom before the FSF period and moved to eighth from the top during the FSF period. The attractiveness of Afghanistan can be explained by the fact that the

geographic distribution of FSF funding broadly mirrors that of ODA and Afghanistan was the top destination of ODA in 2011 (Nakhooda et al., 2013). More funding was directed to the LDCs during the FSF period. The LDCs represented 8% of total funding during the pre-FSF period and 12% of total funding during the FSF period.

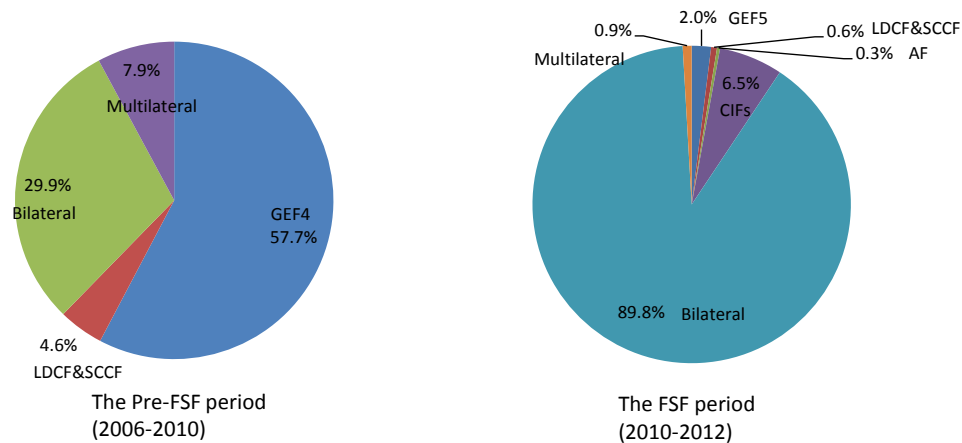


Sources: CFU (2014); IGES et al. (2013)

Fig.7 Comparisons of the order of recipient countries

The decline of the role of UNFCCC funding (i.e. GEF4/5, LDCF, SCCF and AF) and the rise of multilateral and bilateral initiatives outside the UNFCCC was another notable feature during the FSF period. UNFCCC funding was the most significant funding source before the FSF period. However, it only represented 3% of FSF funding (Fig. 8). On the contrary, the share of bilateral support increased from the pre-FSF level of 30% to 90% during the FSF period. New multilateral initiatives outside the UNFCCC such as Climate Investment Funds (CIFs) also played an increasingly prominent role. CIFs were the second largest funding

source during the FSF period and accounted for 7% of FSF funding. However, it should be noted that Fig. 8 does not imply that UNFCCC funding declined in absolute terms. In fact, considering that GEF5 will end by 2014, GEF5 funding in total is expected to surpass the total amount of GEF4.



Sources: CFU (2014); IGES et al. (2013)

Fig. 8 Comparison of the role of UNFCCC funding before and during the FSF period

3. Implications

The different trends before and during the FSF period reflect the different nature of UNFCCC funding and bilateral funding. For example, the GHG emissions level of a recipient country is a more significant indicator for allocating UNFCCC funding than bilateral funding. GEF5 approved USD198.4 million in 2011 and 2012 to Asia, and more than 80% of this amount was allocated to China and India. Similarly, China and India accounted for 70% of GEF4 funding in Asia. In contrast, the correlation between GHG emissions and bilateral funding is much weaker. A study shows that this correlation is 0.51 in UNFCCC funding, while only 0.29 in bilateral funding (Nakhooda et al., 2013). Bilateral funding tends to build on existing programmes and relationships and resists financing countries that have a relatively strong position in the global economy.

Moreover, the disbursement rate of climate finance in Asia was low despite the surge of investments during the FSF period. A closer look at project data shows that over 70% of the disbursed projects were small in size (below USD 5 million) and focused on proposal formulation, project preparation and other enabling activities. For the readiness projects supported by FSF, it is quite possible that support for project implementation will be separate from support for readiness. For example, NAMA support has relied on bilateral funding and the majority of bilateral NAMA support has focused on preparatory and readiness activities (Tilburg et al., 2012). As FSF ended in 2012, those who have supported NAMA preparation have not further committed to financing NAMA implementation (Cameron, 2012). The dichotomy of readiness support and implementation support calls for further coherence and coordination at the UNFCCC level during the post-FSF period.

Finally, the narrow scope of this paper does not imply the insignificance of other types of finance such as private finance. Rather, it reflects the unavailability of data and the complicated nature of private finance. It also reflects the urgent need for a working definition of climate finance (CPI, 2011; LTF, 2013). An agreement on a common definition would be considered to be a step towards improving transparency. An example would be defining mobilised private sector finance in the context of long term finance (LTF, 2013). This analysis also calls for further study on the role of private finance in the Asian context.

References

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Appendix. Climate finance country profile (USD million)

		2006-2012							Pre-FSF (2006-2010)						FSF (2010-2012)								
Group	Country	Overview		Themes					Instruments			UNFCCC		Outside UNFCCC		Sub-total	UNFCCC			Outside UNFCCC			Sub-total
		USD million (current value)	Project number	Mitigation	REDD	Adaptation	Multi-foci	Unknown	Grant	Con loan	Other	GEF4	LDCF & SCCF	Bilateral	Multilateral		GEF5	LDCF & SCCF	AF	CIFs	Bilateral	Multilateral	
LDCs	Afghanistan	239.5	34	177.5	0	32.5	29.5	0	239.5	0	0	0	0	0	5	5	0	4.9	0	0	212.8	16.8	234.5
	Bangladesh	419.7	54	157.1	0.3	243.8	18.5	0	128.6	291.1	0	3	3.3	0	11.6	17.9	8.7	5.7	0	31.1	346.6	9.7	401.8
	Bhutan	63.6	27	27.8	0	35.8	0	0.1	44.6	19.0	0	1.7	3.5	0	0	5.2	0	11.5	0	0	41.3	5.7	58.5
	Cambodia	166.1	55	13.8	23.5	116.3	3	9.5	131.7	34.4	0	2.9	1.9	0	3	7.8	0	6.7	4.9	55.6	88.0	3	158.3
	Lao PDR	104.7	50	15	52.3	29.8	7.5	0.1	99.5	0	5.1	1.8	0	0	0.2	2	0	9.2	0	1.5	78.9	13.2	102.7
	Maldives	58.7	17	18.7	0	34.8	5.2	0	58.7	0	0	0	4.3	0	5.2	9.5	3.9	1.7	9	1.7	33	0	49.2
	Myanmar	18.6	18	0.8	0	12.4	5.3	0	18.6	0	0	0	0.2	0	0	0.2	0	0	0	0	18.4	0	18.4
	Nepal	178.0	98	57.6	13.5	86.9	18.5	1.6	136.3	41.1	0.6	2.8	0	0	0	2.8	3	6.5	0	72.3	72.3	21	175.2
	Sub-total	1248.9	353	468.4	89.6	592.2	87.5	11.2	857.6	385.6	5.7	12.3	13.1	0	25	50.3	15.6	46.1	13.9	162.2	891.4	69.4	1198.6
Non-LDCs	China	394.4	136	333.9	9.5	6.5	36.6	7.9	391.9	0	22.6	135.7	5	33.9	12	186.6	110.5	0	0	0	97.3	0	175.2
	India	4602.7	160	4212.3	8.3	43.3	337.8	1	299	4274.2	29.5	118.5	0	24.8	0	143.3	55.1	9.8	0	0	4394.4	0.1	4459.4
	Indonesia	1997.2	189	968.7	348.7	98.5	580.9	0.4	833.5	1120.6	43.1	22.4	0	103.1	0	125.5	4.5	0	0	130.2	1791.5	17.6	1871.8
	Malaysia	17.9	16	16.7	0.2	0.8	0.2	0	17.9	0	0	9.2	0	0	0	9.2	5	0	0	0	3.7	0	8.7
	Mongolia	71.8	21	55.5	0	14.1	2.2	0	71.8	0	0	4.5	1.5	0	0	6	1.4	0	5.5	0	58.9	0	65.8
	Pakistan	310.3	40	49.4	0	161.4	99.5	0	310.3	0	0	8.6	0	0	0	8.6	3.6	0	3.9	0	294.2	0	301.7
	Philippines	512.6	83	157.8	23	244.7	87	0.1	144.7	357.2	10.7	11.1	5	7.7	8	31.7	0	1.1	0	127	352.3	0.5	480.8
	Sri Lanka	117.6	35	97.1	4	16	0.5	0.1	32.3	83.2	2.1	10.1	0	0	0	10.1	0	3.1	8	0	92.4	4	107.5
	Thailand	396.6	59	363.4	10.4	22.6	0.2	0	226.6	170	0	14.6	0.9	14.1	0	29.5	0	0	0	170.2	196.8	0	367
	Vietnam	1084.5	124	507.2	21.8	234.4	321	0.1	160.7	922.7	1.1	16.1	3.4	4.2	4.4	28.1	2.8	0	0	66.8	986.8	0	1056.4
Sub-total	1248.9	863	6762	426	1434.3	1553.3	20.8	3346.1	6927.9	89	350.6	15.7	187.8	24.4	578.5	182.8	14.0	17.4	494.2	8196.4	22.2	8926.9	
Total		10754.4	1216	7230.4	515.6	1434.3	1553.3	20.8	3346.1	7313.6	94.7	362.9	28.8	187.8	49.4	628.9	198.4	60.1	31.3	656.4	9087.7	91.6	10125.5

Source: Climate Funds Update www.climatefundsupdate.org [checked on January 22nd, 2014]; IGES et al. (2013) <http://pub.iges.or.jp/modules/envirolib/view.php?docid=4801>